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September 19, 2016

**Filed Via Delafile**

Donna Nickerson  
Secretary  
Delaware Public Service Commission  
861 Silver Lake Boulevard  
Cannon Building, Suite 100  
Dover, DE 19904

Re: Docket No. 14-193 – Compliance Filing Per Paragraph 86  
of Amended Settlement Agreement

Dear Ms. Nickerson:

Pursuant to the requirements of Paragraph 86 of the Amended Settlement Agreement in the above referenced docket, approved by the Delaware Public Service Commission in Order No. 8746, dated June 2, 2015, enclosed please find the report of Delmarva Power & Light Company describing the integration efforts undertaken as of the first six (6) months following the consummation of the merger with Exelon Corporation.

Should you have any questions, please do not hesitate to contact me at 302-429-3143 or Heather Hall at 302- 451-5325.

Respectfully submitted,



Pamela J. Scott

Enclosure

cc: Heather Hall (w/enclosure)

**DOCKET NO. 14-193**

**DELMARVA POWER & LIGHT COMPANY**

**REPORT TO THE DELAWARE PUBLIC SERVICE COMMISSION  
PERTAINING TO EXELON MERGER COMMITMENTS  
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 23, 2016**

**Introduction**

This Report to the Delaware Public Service Commission (Commission) has been prepared pursuant to Paragraph 86 of the Amended Settlement Agreement in Docket No. 14-193, approved by Commission Order No.8746, dated June 2, 2015 ("Settlement Agreement"). Specifically, Paragraph 86 requires Delmarva Power & Light Company (Delmarva) to provide to the Commission a report that includes an update regarding integration efforts six months after the consummation of the Merger, and every six months thereafter, for a period of two years post-Merger close. Provided herein is the first semi-annual report on the integration efforts, including: (i) update on organization design and staffing; (ii) description of the integration initiatives completed; (iii) overall status of the Merger commitments; and (iv) initial progress on Merger synergies.

**Update on Organization Design and Staffing**

During the pre-close planning process, all of the corporate functional areas developed organizational charts demonstrating how legacy PHI Service Company (PHISCo) employees would fit into the existing Exelon Business Service Company (BSC) structure, and how each group would meet labor synergy targets. Following Merger close, these areas went through a process of staffing and selection to place employees in roles in the new combined company.

Objectives of this process included:

- Following a structured process that was fair, respectful and clearly communicated;
- Retaining employees for the new company who displayed the necessary skill sets and core competencies for future state and critical business strategies;
- Maintaining commitment to equal opportunity employment and the combined company's Vision and Values;
- Honoring Merger commitments and meeting synergy targets;
- Placing employees in roles that fully utilized their skill sets and competencies to meet the future needs of the business; and
- Minimizing disruption to the business.

The staffing process for all PHISCo and BSC employees was completed on June 6, 2016. Pursuant to Paragraph 5 of the Settlement Agreement, Exelon agreed that it would not permit a net reduction of more than 60 PHISCo employees in Delaware, due to involuntary attrition as a result of the Merger integration process, for three years subsequent to the Merger consummation. To date there have been five involuntary reductions due to the Merger and seven new hires at PHISCo in Delaware. Exelon will continue to monitor and ensure compliance with this commitment.

The PHI utility companies were not part of the staffing and selection process, which was limited to PHISCo employees, but the utility companies, did go through an organization alignment process. The objectives of that process were to integrate PHI utilities into the Exelon job and compensation structure, and to restructure the organizations in line with the Exelon Utilities standard organizational design. The organization alignment covered all levels of management and excluded union employees. This process was completed on August 9, 2016. Pursuant to Paragraph 3 of the Settlement Agreement, Exelon and Delmarva Power committed that upon consummation of the Merger and for at least the first two years following consummation of the Merger, Exelon and Delmarva Power: (a) will not permit a net reduction, due to involuntary attrition as a result of the Merger integration process, in the employment levels at Delmarva Power. To date, there has been one involuntary reduction due to the Merger and four new hires at Delmarva since the close of the Merger. Exelon and Delmarva will continue to monitor and ensure compliance with this commitment.

### **Description of Integration Activities Completed**

Prior to the Merger close, integration teams representing nine different business areas developed lists of requirements for the first 100 days post-Merger close, and plans to implement those requirements. In total, 312 requirements were developed for the nine business areas. The requirements were a mix of process integration, critical policy alignment, and legal requirements. Each of the nine business areas had a team of individuals dedicated to their plans, while a centralized project management office oversaw the execution and reported on status.

Integration teams completed all 312 requirements on schedule. Following are highlights of the major accomplishments in the first 100 days post-Merger close.

#### **Implementation of the Exelon Utilities (EU) Management Model**

The EU Management Model defines and provides guidance on how Exelon and its affiliates plan, perform, manage, assess results, innovate and improve. It is foundational to the successful integration and long term operational excellence of the PHI utilities. Initial efforts completed to date include:

- Updated the Management Model schematic;
- Developed a communication plan and materials in support of employee training;

- 100% of Delmarva management employees underwent training for the “Exelon Utilities Management Model Overview” module to introduce them to the Management Model.

*Implementation of the EU Key Performance Indicators, internal benchmarks and accountability systems across the PHI utilities*

PHI completed the adoption of 62 existing EU performance indicators and benchmark standards against which utility performance can be measured. Specifically, the team collected and analyzed data supplied from the PHI utilities in order to:

- Measure current operational performance of each PHI utility operating company relative to internal benchmarks;
- Establish performance targets for each PHI utility operating company;
- Identify key performance drivers and key practices that can result in high performance by each PHI utility operating company; and
- Assess the operational progress of each utility over time.

Consistent with the EU Management Model, and in order to achieve the desired results, the PHI utilities’ key performance indicators are now included in the EU monthly Key Performance Indicators (KPI) book with executive owners assigned to each metric. A 2016 calendar of management review meetings was created, with monthly meetings attended by PHI senior management and quarterly meetings attended by the EU executive team.

*Enhancement of communications across the Exelon utilities and with senior management*

The team has implemented several communications enhancements within the PHI utilities and across the EU utilities to better disseminate information on system health, operational events, and lessons learned, and to leverage the collective knowledge of the EU organization.

Communication enhancements include:

- Tiered management notification of operational events. For example, senior management is notified in near real time via an email/text when a significant event or outage occurs on the system;
- Daily system status reporting, which provides a daily set of metrics (e.g., SAIFI, CAIDI and SAIDI) and operational health overview to utility leadership. This information also includes a daily email, which includes each EU utility’s report;
- Daily operations phone call coordinated with each region using a standard agenda and call script, along with peer utility reports on significant events across all of EU; and
- Condition reporting and accompanying standard report template of significant events in order to ensure timely sharing of event details and lessons learned across all of EU.

*Streamlining of the process for internal mutual assistance of field crews*

As part of the broad initiative to standardize Lock Out Tag Out (LOTO) procedures across the Exelon utilities, two key implementation milestones were completed: 1) Worker’s Lock Out Tag Out to support mutual assistance for Day 1 of the Merger, and 2) the Clearance Request process training and implementation effective August 1, 2016.

#### Implementation of environmental performance tracking

A significant environmental aspect review was completed for sixteen priority PHI departments; awareness-level training was conducted for priority managers and supervisors on the environmental management system and ISO 14001 process; and environmental performance will be tracked on a monthly basis using the KPI management process.

#### Access to critical IT systems

Prior to Merger close, Exelon and PHI IT groups developed a list of critical systems and users that would need cross-company access on Day 1 of the Merger. They also identified numerous technology integration activities that would need to occur immediately, including enabling employee access to wireless networks at each legacy company's locations; enabling instant messaging and collaboration tools; enabling audio-visual conference capabilities across the merged companies; providing the merged companies access to each other's intranet pages; and establishing an interim issue escalation process between the Exelon IT Operations Center (ITOC) and the PHI Network Operations Center (NOC).

#### Standardization of supply processes amongst utilities

The Supply organization has been working to standardize PHI processes with the other Exelon utilities to provide efficient, effective and consistent support from both an operations and a sourcing perspective. These changes will improve the organization's ability to obtain planned sourcing savings going forward. Completed activities include:

- Merged PHI contract for all electric distribution equipment and miscellaneous repair and operations items under current Exelon contract achieving reduced mark-ups and first cost;
- Bundled DPL needs in sourcing of all Exelon gas distribution equipment achieving savings; and
- Achieved savings through consolidating Bill Print suppliers.

#### Alignment of high-priority Human Resource (HR) policies

HR personnel from both companies performed detailed side-by-side analyses pre-close of all HR policies, identified gaps, and developed plans for harmonizing the two, primarily by implementing Exelon policies at PHI. Certain high-priority policies were aligned in the first 100 days post-Merger close, including: Employee Involuntary Termination, Job Abandonment, Temporary Employment, I9 Employment Eligibility and Verification, Inclement Weather or Other Unusual Conditions, Non-Union Employee Dispute Resolution, and Flexible Work Options. Remaining policies will be aligned over the next two years.

## Merger Commitments

During the pre-close Merger approval process, Exelon and PHI executed 675 commitments to various jurisdictions, including 148 in Delaware<sup>1</sup>. In order to ensure compliance with those commitments, a robust system for tracking and reporting on commitment status was developed and implemented. Prior to the Merger close, business owners, executive owners, and legal counsel were assigned to each commitment to develop detailed project plans and a list of deliverables that would demonstrate that the obligations have been met. A database was built that contains all commitment and project plans and collects frequent status updates from the owners of the commitments. An Executive Steering Committee regularly reviews overall status against completing the commitments, and more detailed updates on high-profile commitments or ones that are coming due. Prior to closing out any commitment, documentation of the closure must be reviewed and approved by the all relevant parties, up to and including Exelon's General Counsel.

Of the 148 Delaware commitments, 73 have been executed and closed to date. Of the 75 remaining open commitments, an additional 14 are on track to close by the end of 2016 with the remaining scheduled to close over the next several years, in compliance with the requirements of the Settlement Agreement.

Below are highlights of some recently closed Delaware commitments.

- Debt forgiveness for low income families (Settlement Agreement ¶ 77): To help reduce the burden of long outstanding energy debt for low income families, Delmarva committed to forgive all accounts receivable over three years old for qualifying low income families. As of March 31, 2016, arrears forgiveness was posted for Delmarva Delaware customers. Accounts receivable locks were released on all accounts eligible for forgiveness on April 5, 2016.
- Customer Investment Fund (Settlement Agreement ¶ 85): Exelon and PHI committed to provide a \$40 million customer investment fund ("CIF") in the form of a bill credit to residential customers, with the bill credit distributed as a direct rate credit to Delmarva residential distribution customers within 60 days after the closing of the Merger. Credits for Delmarva DE customers were posted the weekend of April 16 and 17, 2016, and customers began receiving their credits with bill cycles beginning April 19 and through May 23, 2016. Bill credits amounted to \$122.64 per electric customer and \$49.95 per gas customer (dual service customers, with both electric and gas service, received both credits).
- Contribution to Consumer Advocates of PJM States Inc. (CAPS) (Settlement Agreement ¶ 95): Exelon made a one-time contribution of \$350,000 to fund the expenses of CAPS. This contribution will not be recovered in rates.

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<sup>1</sup> Totals do not include any adjustments due to Most Favored Nation (MFN) discussions.

- Dismiss Appeal Related to Commission Docket No. 13-115 (Settlement Agreement ¶ 76): On April 13, 2016, the parties to the appeal (Delmarva, Commission Staff and Division of the Public Advocate) submitted to the court a Stipulation of Dismissal with prejudice pursuant to Superior Court Civil Rule 41(a) and in accordance with the Settlement Agreement, with each party bearing its own costs and attorneys' fees.
- Ring-fencing requirements: Exelon and PHI committed to fifty-five Ring-fencing requirements, fifty of which have been met or accounted for. Of the five remaining, four are in compliance and have recurring or ongoing requirements, and work is being done to address the last requirement.

### **Synergy Savings**

The pre-Merger integration teams built a plan to generate cost savings starting in 2016, ramping up over the next five years to a target of \$131M in 2020 on a system wide basis. The teams have been working to achieve the targets and, at this early stage in the five year synergy cost saving process, anticipate achieving those targets. The target for cost savings in 2016 is a total of \$24M. Through the first three months of reporting, the teams across the enterprise have saved \$15.9M and anticipate achieving the 2016 target amount.

The savings are primarily driven by labor synergies, along with non-labor savings in areas such as reduced or eliminated insurance premiums and fees, credit facility, duplicate vendors and duplicate industry memberships. Labor synergies resulted from the completion of the staffing and selection process in various corporate support areas such as Finance, Legal, Risk, Communications, Human Resources, Supply, Information Technology, and Security.

### **Conclusion**

The integration project organization has made significant progress in integrating Delmarva and the other PHI companies with Exelon in the first six months following the Merger close. Considerable work remains over the next few years to complete all integration activity, realize synergy savings, and meet all merger commitments, while continuing to focus on delivering reliable service and maintaining high standards of safety. The combined company remains firmly committed to achieving these targets and fully realizing the benefits of the Merger.

In compliance with the provisions of Paragraph 86 of the Settlement Agreement, Delmarva will continue to provide updates on integration efforts on a semi-annual basis for two years following Merger close. The next report will be filed in March 2017.